1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Nam Tai Electronics, Inc. ("NTE Inc."), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange. The address of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The financial statements are presented in Hong Kong Dollar, which is the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas but has had no material effect on how the results for the current or prior accounting years are prepared. Accordingly, no prior year adjustment has been required.

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$8,351,000 as at 1 January 2005 continues to be held in reserves and will be transferred to the retained earnings of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Business Combinations *(Continued)*

Goodwill (Continued)

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of change in foreign exchange rate-net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives, using the straight line method, on the following bases:

Leasehold improvements	15%
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	15%
Motor vehicles	20%

Machinery under installation are carried at cost, less any identified impairment losses. Depreciation of these assets commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are charged as an expense as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Impairment other than goodwill and intangible with indefinite life

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets (including trade and other receivables and amount due from a fellow subsidiary) which have fixed or determinable payments that are not quoted in an active market are carried at amortised cost using the effective interest method, less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally other financial liabilities and the accounting policies adopted in respect of these liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables, bills payable and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Intangible assets

Intangible assets represent club membership with indefinite useful lives and are carried at cost less any subsequent accumulated impairment losses.

The club membership is currently has a second hand market and has no foreseeable limit to its useful life. The directors of the Company are in the opinion that the Group would continue to hold the club membership and has the ability to do so. The club membership has been tested for impairment in the current year by reference to its second hand market value and no impairment loss was charged for the current year.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognition.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Useful lives and impairment assessment of property, plant, and equipment

Property, plant, and equipment are stated on the consolidated balance sheet at cost less accumulated depreciation and identified impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recorded. Property, plant, and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

Estimation on the recoverability of PRC tax paid

Pursuant to the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, as set out in more details in note 9, the Group is eligible for the refund of a certain portion of its income tax paid for its subsidiary, Jetup Electronic (Shenzhen) Co., Ltd. ("Jetup Electronic"), if it exported more than 70% of the production value of its products. In addition, income taxes paid by Jetup Electronic can be refunded if the shareholder of Jetup Electronic reinvested or resolved to reinvest the profits in Jetup Electronic. The taxes will be refunded upon the completion of the relevant application procedures. Management's estimation on the amount of taxes refundable upon completion of the application procedures will impact the amount of tax expenses to be recorded.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade receivables, amount due from a fellow subsidiary and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank balance, trade receivables and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Interest rate risk

The Group has exposure to interest rate price risks as the bank borrowings are arranged at floating rate. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

6. SEGMENTS

As the Group is entirely engaged in the manufacturing and distribution of liquid crystal display ("LCD") products, the Group has only one business segment and the Group's primary reporting segment is geographic segment.

Geographical segments

The Group's operations are predominately located in the PRC. Revenue of the Group represents the amounts received and receivable for goods sold, net of returns and services rendered by the Group to outside customers. The Group reports its primary segment information based on the initial destination of shipment of its products, principally Hong Kong, the PRC, Europe and Japan. Revenues from sales to other locations, that do not meet the criteria as a separate reportable segment, have been combined and reported as "Others". The Group's subsidiary in the PRC remains as an export based enterprise in the PRC. Segment information about these geographical markets is presented as follows:

INCOME STATEMENT
Year ended 31 December 2005

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Others HK$'000	Consolidated HK$'000
External revenue	204,458	243,922	3,558	2,958	3,602	458,498
Segment results	38,216	23,811	1,715	1,407	1,918	67,067
Unallocated expenses						(26,053)
Bank interest income						368
Interest on bank borrowings						(3,418)
Profit before taxation						37,964
Taxation						(583)
Profit for the year attributable to equity holders of the Company						37,381

6. SEGMENTS *(Continued)*

BALANCE SHEET
At 31 December 2005

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	59,613	44,600	764	354	800	106,131
Unallocated assets						220,276
Consolidated total assets						326,407
LIABILITIES						
Segment liabilities	–	12,349	–	–	–	12,349
Unallocated liabilities						157,996
Consolidated total liabilities						170,345

6. SEGMENTS *(Continued)*

OTHER INFORMATION
Year ended 31 December 2005

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Allowance for inventories	189	266	1	1	1	–	458
Capital additions	–	9,166	–	–	–	25,379	34,545
Depreciation	–	1,028	–	–	–	25,472	26,500
Impairment loss recognised in respect of trade receivables	1,970	1,056	–	(50)	385	–	3,361
Loss on disposal of property, plant and equipment	–	–	–	–	–	581	581

INCOME STATEMENT
Year ended 31 December 2004

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Others HK$'000	Consolidated HK$'000
External revenue	59,256	313,978	790	4,322	5,984	384,330
Segment results	13,346	29,753	343	598	1,577	45,617
Unallocated expenses						(20,572)
Bank interest income						142
Gain on disposal of other investments						104
Interest on bank borrowings						(1,335)
Profit before taxation						23,956
Taxation						(521)
Profit for the year attributable to equity holders of the Company						23,435

6. SEGMENTS *(Continued)*

BALANCE SHEET

At 31 December 2004

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	45,469	35,792	–	684	2,555	84,500
Unallocated assets						190,527
Consolidated total assets						275,027
LIABILITIES						
Segment liabilities	–	22,274	–	–	–	22,274
Unallocated liabilities						118,801
Consolidated total liabilities						141,075

OTHER INFORMATION

Year ended 31 December 2004

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Unallocated HK$'000	Consolidated HK$'000
Allowance for inventories	17	116	–	1	2	136
Capital additions	–	4,532	–	–	12,835	17,367
Depreciation	–	664	–	–	17,784	18,448
Impairment loss recognised on property, plant and equipment	–	–	–	–	2,763	2,763
Loss on disposal of property, plant and equipment	–	–	–	–	25	25

6. SEGMENTS *(Continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**16,961**	89,078	**85**	56
The PRC	**292,759**	181,113	**34,460**	17,311
Macao	**12,004**	116	**–**	–
	321,724	270,307	**34,545**	17,367

7. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Staff costs, including directors' remunerations	**57,700**	47,718
Retirement benefit scheme contributions	**4,189**	3,127
Total staff costs	**61,889**	50,845
Less: Staff cost included in research and development expenditure	**(4,267)**	(2,163)
	57,622	48,682
Allowance for inventories, net	**458**	136
Auditors' remuneration	**770**	673
Depreciation of property, plant and equipment	**26,500**	18,448
Impairment loss recognised (reversed) in respect of trade receivables, net	**3,361**	(484)
Loss on disposal of property, plant and equipment	**581**	25
Net foreign exchange (gain) losses	**(4,348)**	136
Operating lease rentals in respect of premises	**8,085**	5,989

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of directors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2004: nine) directors were as follows:

Year ended 31 December 2005

	Seitaro Furukawa	Koo Ming Kown	Tadao Murakami*	Li Shi Yuen Joseph	Chui Kam Wai	Yeoh Teck Hooi	Cham Yau Nam	Leung Wai Hung	Cheng Chi Heng	Wong Toe Yeung*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fee	225	–	–	–	–	225	120	120	–	90	780
Other emoluments											
Salaries and other benefits	1,352	–	–	–	1,500	1,083	–	–	–	–	3,935
Performance related incentive bonus	461	–	–	–	576	345	–	–	–	–	1,382
Retirement benefit scheme contributions	–	–	–	–	12	12	–	–	–	–	24
Total emoluments	2,038	–	–	–	2,088	1,665	120	120	–	90	6,121

* *Resigned during the year ended 31 December 2005*

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Year ended 31 December 2004

	Seitaro Furukawa HK$'000	Koo Ming Kown HK$'000	Tadao Murakami HK$'000	Li Shi Yuen Joseph HK$'000	Chui Kam Wai HK$'000	Cham Yau Nam HK$'000	Leung Wai Hung HK$'000	Cheng Chi Heng HK$'000	Wong Toe Yeung HK$'000	Total HK$'000
Fee	–	–	–	–	–	120	120	–	120	360
Other emoluments										
Salaries and other benefits	1,514	–	–	1,320	1,234	–	–	–	–	4,068
Performance related incentive bonus	–	–	–	–	522	–	–	–	–	522
Retirement benefit scheme contributions	–	–	–	9	12	–	–	–	–	21
Total emoluments	1,514	–	–	1,329	1,768	120	120	–	120	4,971

For the year ended 31 December 2005, one of the independent non-executive Directors, Mr. Cheng Chi Heng waived emoluments of HK$120,000 (2004: HK$120,000).

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2004: three directors), details of whose emoluments are set out in note 8(a) above. The emoluments of the remaining two (2004: two) highest paid individuals were as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	1,440	1,717
Retirement benefits scheme contributions	–	12
	1,440	1,729

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
Nil to HK$1,000,000	2	1
HK$1,000,001 to HK$1,500,000	–	1

9. TAXATION

	2005	2004
	HK$'000	HK$'000
PRC income tax		
Current year	**359**	347
Underprovision in prior years	**224**	174
	583	521

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005	2004
	HK$'000	HK$'000
Profit before taxation	**37,964**	23,956
Tax at PRC enterprise income tax rate of 15% (2004: Hong Kong Profits Tax rate of 17.5%)	**5,695**	4,192
Tax effect of (income) expenses that are not taxable/deductible for tax purposes	**(377)**	338
Tax effect of tax losses not recognised	**1,143**	1,390
Tax effect of PRC income tax refunded	**(4,573)**	(2,169)
Tax exemptions granted to a PRC subsidiary	**–**	(2,520)
Underprovision of income tax expense in prior years	**224**	174
Effect of different tax rates of the Company and its subsidiaries operating in other jurisdictions	**(1,459)**	(840)
Others	**(70)**	(44)
Tax charge for the year	**583**	521

Note: The PRC enterprise income tax rate of 15% (2004: Hong Kong Profits Tax rate of 17.5%) is used as this is where the operation of the Group is substantially based.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for both years.

At 31 December 2005, the Group had unused tax losses of approximately HK$15,827,000 (2004: HK$9,292,000) available to offset future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

9. TAXATION *(Continued)*

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, the Company's PRC subsidiary is subject to a tax rate of 15% on the assessable profit for the year. The Company's PRC subsidiary was recognised as a high and new technology enterprise in 2002 and was granted a preferential tax rate of 7.5% from 2002 to 2004. Furthermore, a foreign investment enterprise ("FIE") whose foreign investor directly reinvests by way of capital injection its share of profits obtained from that FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years may obtain a refund of significant amount of taxes already paid on those profits. The Company's PRC subsidiary qualified for such tax refunds as a result of the Group's reinvestment of its profit earned in previous years. At 31 December 2004 and 2005, taxation recoverable under such arrangements were approximately HK$4,633,000 and HK$4,575,000 respectively, which are included in taxation recoverable.

J.I.C. (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law.

10. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim, paid		
– HK$0.020 per ordinary share (2004: HK$0.015 per ordinary share)	15,271	5,288
– HK$0.015 per preference share for 2004 (note)	–	6,350
	15,271	11,638
Final, paid for 2003		
– HK$0.022 per ordinary share	–	7,756
– HK$0.022 per preference share (note)	–	9,313
	–	17,069
	15,271	28,707

Note: All preference shares were converted into ordinary shares in 2004.

10. DIVIDENDS *(Continued)*

A final dividend of 2.0 HK cents (2004: Nil) per share to the shareholders on the register of members on 13 April 2006, amounting to approximately HK$15,270,695, has been proposed by the directors in respect of the results for the year ended 31 December 2005 and is subject to approval by the shareholders in the general meeting.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2005	2004
	HK$'000	HK$'000
Profit for the year attributable to equity holders of the Company	**37,381**	23,435
Dividends on preference shares	**–**	(15,663)
Earnings for the purposes of basic and diluted earnings per share	**37,381**	7,772
	Number of shares	
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**763,534,755**	356,647,176

There is no disclosure of diluted earnings per share for 2005 as there was no dilutive potential ordinary shares in issue during the year. The computation of diluted earnings per share for 2004 does not assume the conversion of the Company's outstanding convertible preference shares during that year as their conversion would result in an increase in earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve–ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2004	16,543	122,854	5,393	933	145,723
Additions	676	15,114	1,079	498	17,367
Disposals	–	(9)	(154)	(3)	(166)
At 31 December 2004 and 1 January 2005	17,219	137,959	6,318	1,428	162,924
Additions	52,996	23,714	2,072	438	79,220
Disposals/written off	(3,482)	(579)	(619)	–	(4,680)
At 31 December 2005	66,733	161,094	7,771	1,866	237,464
DEPRECIATION					
At 1 January 2004	7,268	42,131	2,414	632	52,445
Provided for the year	2,270	15,129	862	187	18,448
Impairment loss	2,763	–	–	–	2,763
Eliminated on disposals/written off	–	(9)	(131)	(1)	(141)
At 31 December 2004 and 1 January 2005	12,301	57,251	3,145	818	73,515
Provided for the year	6,570	18,645	1,075	210	26,500
Eliminated on disposals	(3,141)	(482)	(476)	–	(4,099)
At 31 December 2005	15,730	75,414	3,744	1,028	95,916
NET BOOK VALUES					
At 31 December 2005	51,003	85,680	4,027	838	141,548
At 31 December 2004	4,918	80,708	3,173	610	89,409

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

In 2004, the Group commenced relocating to its new manufacturing facilities. As at 31 December 2004, the directors conducted a review of the Group's property, plant and equipment and determined that certain leasehold improvements would no longer be used upon the completion of relocation in January 2005. Accordingly, an impairment loss of approximately HK$2,763,000 was recognised in respect of these leasehold improvements for the year ended 31 December 2004 (2005: Nil).

13. MACHINERY UNDER INSTALLATION AND DEPOSITS PAID FOR THE ACQUISITION OF PLANT AND EQUIPMENT

	2005	2004
	HK$'000	HK$'000
Machinery and leasehold improvement under installation	**–**	39,157
Deposit paid for the acquisition of plant and equipment	**7,911**	5,518
	7,911	44,675

The machinery under installation was classified in the relevant category of plant and equipment upon completion of the installation and becomes fully operational.

14. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**39,508**	32,280
Work in progress	**5,442**	2,696
Finished goods	**2,220**	1,177
	47,170	36,153

15. TRADE AND OTHER RECEIVABLES

	2005 HK$'000	2004 HK$'000
Trade receivables	**85,740**	71,531
Less: accumulated impairment losses	**(3,748)**	(387)
	81,992	71,144
Other receivables	**1,008**	5,482
Total trade and other receivables	**83,000**	76,626

The Group allows an average credit periods ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of impairment losses, at the balance sheet dates, prepared on the basis of sales invoice date:

	2005 HK$'000	2004 HK$'000
Within 30 days	**27,586**	32,326
More than 30 days and within 60 days	**29,702**	25,147
More than 60 days and within 90 days	**15,519**	10,876
More than 90 days	**9,185**	2,795
	81,992	71,144

The fair value of the Group's trade and other receivables at 31 December 2005 was approximated to the corresponding carrying amount because of its short maturity period.

16. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The balance is unsecured, non-interest bearing and has a credit period of 60 days.

The fair value of the Group's amount due from a fellow subsidiary at 31 December 2005 was approximated to the corresponding carrying amount because of its short maturity period.

17. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet dates, prepared on the basis of supplier invoice date:

	2005 HK$'000	2004 HK$'000
Trade payables:		
Within 30 days	35,012	30,636
More than 30 days and within 60 days	10,843	11,043
More than 60 days and within 90 days	2,349	8,908
More than 90 days	10,952	1,138
	59,156	51,725
Other payables	14,047	9,104
	73,203	60,829

The fair value of the Group's trade and other payables at 31 December 2005 was approximated to the corresponding carrying amount because of its short maturity period.

18. BANK BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank borrowings are unsecured and comprise the followings:		
Bank loans	**57,639**	62,692
Trust receipt loans	**37,303**	9,801
	94,942	72,493
The bank borrowings are repayable as follows:		
Within one year	**72,854**	32,226
More than one year, but not exceeding two years	**4,650**	18,037
More than two years, but not exceeding three years	**10,463**	–
More than three years, but not exceeding four years	**6,975**	22,230
	94,942	72,493
Less: Amounts due within one year (shown under current liabilities)	**(72,854)**	(32,226)
Amounts due after one year	**22,088**	40,267

The above are borrowings at semi-variable interest rates ranging from 0.55% to 1.5% over Hong Kong/London/Singapore Interbank Offered Rate.

18. BANK BORROWINGS *(Continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005	2004
Effective interest rate	**3.2% to 5.2%**	2.1% to 3.2%

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	RMB '000	USD $'000
As at 31 December 2005	11,500	5,764
As at 31 December 2004	–	8,037

During the year, the Group obtained new bank loans in the amount of approximately HK$37,129,000. The loans bear interest at market rates and will be repayable in 2006. The proceeds were used to finance the acquisition of plant and equipment.

19. SHARE CAPITAL

	Ordinary shares of HK$0.01 each		Non-redeemable convertible preference shares of HK$0.01 each (note a)		
	Number of shares	HK$'000	Number of shares	HK$'000	Total HK$'000
Authorised:					
At 1 January 2004, 31 December 2004 and 31 December 2005	2,000,000,000	20,000	600,000,000	6,000	26,000
Issued and fully paid:					
At 1 January 2004	352,544,465	3,526	423,320,000	4,233	7,759
Conversion of preference shares into ordinary shares during the year (note b)	410,990,290	4,109	(423,320,000)	(4,233)	(124)
At 31 December 2004 and 31 December 2005	763,534,755	7,635	–	–	7,635

Note:

(a) The preference shares are not redeemable and the holders of which shall not be entitled to vote. At any time after allotment, each holder of the preference shares shall be entitled to convert all or a portion of his/her preference shares into fully paid ordinary shares at the initial conversion rate of 1 ordinary share for every 1.03 preference shares, provided that for the purposes of ensuring the continued listing of the Company's ordinary shares on the Stock Exchange after the conversion of the preference shares, no holder of preference shares shall be entitled to exercise the conversion rights if, as a result, the Company's ordinary shares issued upon conversion together with any ordinary shares of the Company then in issue would result in the minimum prescribed percentage of the Company's ordinary shares in public hands (as defined in the Rules Governing the Listing of Securities on the Stock Exchange from time to time) not being satisfied. On any payment of dividend or distributions (other than a distribution on winding up), the preference shares shall rank pari passu with the ordinary shares.

(b) During the year ended 31 December 2004, NTE Inc. exercised the conversion right of 423,320,000 preference shares, resulting in the issuance of 410,990,290 ordinary shares in the Company and the creation of ordinary share premium of approximately HK$124,000. The ordinary shares issued rank pari passu in all respects with the then existing issued ordinary shares in the Company.

20. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	**3,203**	9,236
Authorised but not contracted for	**8,037**	8,908
	11,240	18,144

21. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**8,821**	10,400
In the second to fifth year inclusive	**38,733**	36,769
Over five years	**14,999**	24,794
	62,553	71,963

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms ranging from one to eight years. Monthly rent escalation is limited to a maximum increase of 10% every three years.

22. RETIREMENT BENEFIT SCHEMES

According to the relevant laws and regulations in the PRC, Jetup Electronic is required to contribute 8% to 9% and approximately 1% to 2% of the stipulated salary set by the local government of Shenzhen, PRC, to the retirement benefit scheme and social benefit schemes ("PRC Scheme") to fund the retirement benefit and social benefits respectively of their employees. The principal obligation of the Group with respect to the PRC Scheme is to make the required contributions under the scheme. The total contributions incurred in this connection for the year were approximately HKD4,086,000 (2004: HKD2,929,000).

The Group operates a retirement benefit scheme ("Macao Scheme") for all qualifying employees in Macao and a mandatory provident fund scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the Macao Scheme and the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,000 or 5% of the relevant payroll costs to the MPF Scheme and the Macao Scheme, which contribution is matched by employees. The total contributions incurred in this connection for the year were approximately HKD103,000 (2004: HKD198,000).

23. SHARE-BASED PAYMENT TRANSACTIONS

Equities – settled share options scheme:

(a) *Share option schemes adopted by NTE Inc.*

In August 1993, the board of directors of NTE Inc. approved a stock option plan which authorised the issuance of 900,000 vested options to key employees, consultants or advisors of NTE Inc. or any of its subsidiaries for the primary purpose of providing them incentives. After the amendment of the option plan, in April 1999, the maximum number of shares to be issued pursuant to the exercise of options granted was increased to 4,275,000. The option price granted to the eligible participants shall not normally be less than the market value of the common shares of NTE Inc. at the date of grant. The options granted under this plan vest immediately and generally have a term of three years, but cannot exceed ten years. The options are granted to employees for the services NTE Inc.

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equities – settled share options scheme: *(Continued)*

(a) Share option schemes adopted by NTE Inc. (Continued)

In May 2001, the board of directors of NTE Inc. approved another stock option plan ("2001 Scheme") which would grant 15,000 options to each independent director of NTE Inc. elected at each annual general meeting of shareholders, and might grant options to key employees, consultants or advisors of NTE Inc. or any of its subsidiaries to subscribe for its shares in accordance with the terms of this stock option plan. The maximum number of shares to be issued pursuant to the exercise of options granted was 3,000,000 shares. There is no maximum entitlement for each of the key employee under this stock option plan. The option price granted to directors shall be equal to 100% of the market value of the common shares of NTE Inc. on the date of grant. The option price granted to other eligible participants other than directors shall not normally be less than market value of the common shares of NTE Inc. on the date of grant. The options granted under this plan vest immediately and generally have a term of three years, subject to the discretion of the board of directors of NTE Inc. to prescribe the time or times which the option may be exercised, but cannot exceed ten years. The options are granted to non-employee directors based on past performance and/or expected contributions to NTE Inc. No consideration is payable on the grant of an option.

The following tables disclosed details of the share option granted to the directors of the Company for services performed as directors of NTE Inc. and movements in such holdings during the years:

	2001 Scheme	**2001 Scheme**	**2001 Scheme**
Exercise price per share	US$19.400	US$20.840	US$21.620
Number of options:			
Outstanding at 1 January 2004	–	–	–
Granted during the year	390,000	–	–
Outstanding at 31 December 2004 and 1 January 2005	390,000	–	–
Granted during the year	–	750,000	30,000
Resigned as director during the year	(180,000)	(350,000)	(15,000)
Exercised during the year	(180,000)	(350,000)	(15,000)
	30,000	50,000	–

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equities – settled share options scheme: *(Continued)*

(a) Share option schemes adopted by NTE Inc. (Continued)

Details of specific categories of options are as follows:

Date of grant	Exercisable period	Exercise price per share
		US$
30 April 2002	30 April 2002 to 30 April 2005	6.015
30 July 2004	30 July 2004 to 30 July 2006	19.400
2 February 2005	4 February 2005 to 4 February 2007	20.840
6 June 2005	6 June 2005 to 6 June 2008	21.620

The weighted average closing price of NTE Inc.'s shares on the dates in which the share options were exercised was approximately US$23.42 for the year ended 31 December 2005.

(b) Share option scheme adopted by the Company

On 16 April 2002, a share option scheme ("the Scheme") was approved by the board of directors and enables the Company to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee of the Group (including any director of the Company or any of its subsidiaries) and those companies in the equity share capital of which the Company, directly or indirectly, has a 20 percent or greater beneficial interest but excluding the Company's subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company's shares are listed on The Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equities – settled share options scheme: *(Continued)*

(b) Share option scheme adopted by the Company (Continued)

The exercise price of the share option is determinable by the board of directors, but shall not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of that option, which must be a business day; (ii) the average of the closing prices of the Company's ordinary shares as stated in the Stock Exchange for the five trading days immediately preceding the date of grant of that option, and (iii) the nominal value of the Company's shares.

The maximum number of shares which may be issued on exercise of all options granted under the Scheme (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other scheme) shall not exceed 10% of the ordinary share capital of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the maximum number of shares that may be issued pursuant to the Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options shall be deemed to have been accepted when the counterpart of the option agreement is duly signed by the grantee together with payment by the guarantee of a nominal consideration of the amount specified in the offer, as being the consideration for the grant of the option, is received by the Company at the place specified in the option agreement within 28 days from the date of the offer or such other period as the board of directors may specify in writing. An option may be exercised during the period specified in the terms of grant.

No options have been granted under the Scheme since its adoption.

24. RELATED PARTY TRANSACTIONS

Other than that disclosed in note 8(a) in respect of the remunerations of directors, the Group entered into transactions with the following fellow subsidiaries owned by NTE Inc. during the year:

Name of related party	Nature of transactions	2005 HK$'000	2004 HK$'000
Namtai Electronic (Shenzhen) Co., Ltd.	Sales of finished goods by the Group, net	5,216	4,393
Nam Tai Group Management Limited	Service fees paid by the Group	2,230	5,910
Zastron Electronic (Shenzhen) Co. Ltd.	Purchase of processed goods by the Group	–	34,264
	Sales of raw materials by the Group	–	24,400

In addition, as at 31 December 2004, two directors of the Company had guaranteed repayment of certain trade receivables of the Group amounted to approximately HK$423,000 at nil consideration (2005: Nil).

From October 2005 onwards, Zastron Precision-Tech Limited, a fellow subsidiary wholly-owned by NTE Inc., also provides certain administrative services to the Group, for which no charge was made until the end of year 2005 (2004: Nil).

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 31 and note 16.

Compensation to key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	6,097	4,950
Post-employment benefits	24	21
Other long-term benefits	–	–
Share-based payments	–	–
	6,121	4,971

25. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Issued and paid up share capital/ registered capital	Proportion of issued capital/ registered capital held directly by the Company %	Principal activities
J.I.C. Enterprises (Hong Kong) Limited	Hong Kong	HK$500,000	100	Inactive
J.I.C. (Macao Commercial Offshore) Company Limited	Macao	HK$97,500	100	Data management, research and development, and technical analysis
Jetup Electronic (Shenzhen) Co., Ltd.	PRC (note)	HK$140,967,224	100	Manufacture and distribution of LCD products

Note: Registered as a wholly owned FIE.